

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | | |
|---|--------------|-----------------|--------------------------------------|--------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name | | County |
| Fiscal Year End | Opinion Date | | Date Audit Report Submitted to State | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

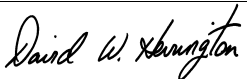
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | | |
|--|--------------------------|--|----------------|-----|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | | |
| Financial Statements | <input type="checkbox"/> | | | |
| The letter of Comments and Recommendations | <input type="checkbox"/> | | | |
| Other (Describe) | <input type="checkbox"/> | | | |
| Certified Public Accountant (Firm Name) | | Telephone Number | | |
| Street Address | | City | State | Zip |
| Authorizing CPA Signature  | Printed Name | | License Number | |

City of Berkley, Michigan

**Financial Report
with Supplemental Information
June 30, 2006**

City of Berkley, Michigan

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City of Berkley, Michigan

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Independent Auditor's Report

To the City Council
City of Berkley, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Berkley, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Berkley, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Berkley, Michigan as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, pension system schedule of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council
City of Berkley, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Berkley, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 31, 2006

City of Berkley, Michigan

Management's Discussion and Analysis (Continued)

Our discussion and analysis of the City of Berkley, Michigan's financial performance provides an overview of the City of Berkley's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

- State-shared revenue, a significant revenue source, was reduced by the state of Michigan by approximately \$17,000 this year due to a declining state economy and state budget cutbacks. The City reacted by carefully reviewing expenditures.
- Total net assets related to the City's governmental activities increased by approximately \$1,700,000. The unrestricted portion of net assets increased by approximately \$600,000.
- In May 2006, the City issued \$5,975,000 of road bonds. These bonds are being utilized to rehabilitate major and local streets throughout the City. Those roads receiving bond proceeds for rehabilitation include Twelve Mile, Eleven Mile, Coolidge Hwy., Webster Road, Catalpa, and various local street improvements throughout the City. Eleven Mile road work is scheduled to start in December 2006 and is a joint venture with the City of Huntington Woods, Oak Park, and the Southeastern Oakland County Water Authority (SOCWA).
- The City utilized the Pavement Surface Evaluation Road Rating System to determine roadway condition ratings for the 2005/2006 road inventory update, to identify priority projects for the 2006 Road Improvement Program.
- To reduce the infiltration of ground water into the sewer collection system and re-establish the structural integrity of the sewer mains, the City continued the sewer lining upgrade program. The City invested and capitalized just over \$441,000 in the sewer lining program.
- The City also continued the water meter replacement program, replacing 91 meters in the year ended June 30, 2006.
- The City completed Phase II of the street sign upgrade program, which will improve visibility of street names on signs and will be phased in over three years.
- The City continues to provide an employee training program to enable Water Department employees to obtain Michigan Department of Environmental Quality, Water Distribution System certifications, as required by federal and state regulations.
- Circulation increased 17 percent at the library in the year ended June 30, 2006. This increase is partially due to the citizens of Royal Oak utilizing the Berkley library while the Royal Oak library was being remodeled.

City of Berkley, Michigan

Management's Discussion and Analysis (Continued)

- The City revised its yard waste collection program due to major changes in Michigan Department of Natural Resources regulations.
- New voting equipment was provided by the State of Michigan at no cost to the City of Berkley as authorized by the federal government under the Help America Vote Act. The voting machines were placed on the City books at a value of \$70,000.
- The City's master plan is currently undergoing a State of Michigan mandated review. The City plans to hold a public hearing and approve the final master plan in January 2007.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Berkley as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City of Berkley as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2006 and 2005 (in millions of dollars):

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------------|-------------------------|---------------|--------------------------|---------------|----------------|----------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Current assets | \$ 13.6 | \$ 6.8 | \$ 4.0 | \$ 3.7 | \$ 17.6 | \$ 10.5 |
| Noncurrent assets | 14.2 | 12.7 | 3.2 | 2.9 | 17.4 | 15.6 |
| Total assets | 27.8 | 19.5 | 7.2 | 6.6 | 35.0 | 26.1 |
| Current liabilities | 2.6 | 1.4 | 0.3 | 0.3 | 2.9 | 1.7 |
| Long-term liabilities | 14.8 | 9.5 | 0.3 | 0.3 | 15.1 | 9.8 |
| Total liabilities | 17.4 | 10.9 | 0.6 | 0.6 | 18.0 | 11.5 |
| Net assets: | | | | | | |
| Invested in capital assets - | | | | | | |
| Net of related debt | 4.0 | 3.3 | 2.9 | 2.5 | 6.9 | 5.8 |
| Restricted | 3.6 | 2.9 | - | - | 3.6 | 2.9 |
| Unrestricted | 2.8 | 2.4 | 3.7 | 3.5 | 6.5 | 5.9 |
| Total net assets (as restated) | <u>\$ 10.4</u> | <u>\$ 8.6</u> | <u>\$ 6.6</u> | <u>\$ 6.0</u> | <u>\$ 17.0</u> | <u>\$ 14.6</u> |

City of Berkley, Michigan

Management's Discussion and Analysis (Continued)

The City of Berkley's combined net assets increased just over 16 percent from a year ago - increasing from \$14.6 million to \$17.0 million. Unrestricted net assets of the governmental activities and the business-type activities, the part of net assets used to finance day-to-day operations, increased approximately 10.2 percent from June 30, 2005.

In reviewing the City's net assets of business-type activities, the net assets invested in capital assets, net of related debt, increased approximately 16 percent due to the addition of a new business asset in the current year net of depreciation expense. Specifically, the new asset acquired is the City-wide sewer relining program, in which the City invested and capitalized just over \$441,000 worth of sewer relining work. Total net assets of the business-type activities increased by approximately \$575,000. This is primarily a result of operating income in the City's Water and Sewer activity and a net operating loss of approximately \$45,000 at the ice arena. Current net assets are sufficient in the Ice Arena Fund to offset the loss in the year ended June 30, 2006.

City management is developing revenue enhancement and expense reduction strategies that will eliminate the use of the ice arena unrestricted net assets to defray future ice arena costs.

City of Berkley, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the years ended June 30, 2006 and 2005 (in millions of dollars):

| | Governmental Activities | | Business-type Activities | | Total | |
|------------------------------------|-------------------------|---------------|--------------------------|---------------|---------------|---------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Revenue | | | | | | |
| Program revenue: | | | | | | |
| Charges for services | \$ 2.3 | 2.4 | \$ 4.5 | \$ 4.2 | \$ 6.8 | \$ 6.6 |
| Operating grants and contributions | 1.1 | 1.2 | - | - | 1.1 | 1.2 |
| General revenue: | | | | | | |
| Property taxes | 6.2 | 5.9 | - | - | 6.2 | 5.9 |
| State-shared revenue | 1.5 | 1.5 | - | - | 1.5 | 1.5 |
| Unrestricted investment earnings | 0.4 | 0.1 | 0.1 | - | 0.5 | 0.1 |
| Franchise fees | 0.2 | 0.2 | - | - | 0.2 | 0.2 |
| Transfers and other revenue | 0.8 | 0.8 | (0.5) | (0.5) | 0.3 | 0.3 |
| Total revenue | 12.5 | 12.1 | 4.1 | 3.7 | 16.6 | 15.8 |
| Program Expenses | | | | | | |
| General government | 2.4 | 2.1 | - | - | 2.4 | 2.1 |
| Public safety | 4.0 | 3.6 | - | - | 4.0 | 3.6 |
| Public works | 2.4 | 2.3 | - | - | 2.4 | 2.3 |
| Health and welfare | 0.1 | 0.1 | - | - | 0.1 | 0.1 |
| Recreation and culture | 1.7 | 1.4 | - | - | 1.7 | 1.4 |
| Unallocated depreciation | - | 0.4 | - | - | - | 0.4 |
| Interest on long-term debt | 0.3 | 0.3 | - | - | 0.3 | 0.3 |
| Water and sewer | - | - | 3.0 | 3.2 | 3.0 | 3.2 |
| Arena | - | - | 0.5 | 0.4 | 0.5 | 0.4 |
| Total program expenses | 10.9 | 10.2 | 3.5 | 3.6 | 14.4 | 13.8 |
| Change in Net Assets | <u>\$ 1.6</u> | <u>\$ 1.9</u> | <u>\$ 0.6</u> | <u>\$ 0.1</u> | <u>\$ 2.2</u> | <u>\$ 2.0</u> |

City of Berkley, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

Overall, the net assets for governmental activities increased by \$1,700,000 in fiscal year 2006 over fiscal year 2005 due to the economic effects described below.

The City of Berkley's total governmental revenues increased by approximately \$500,000, despite a decrease in state-shared revenue received in the year ended June 30, 2006. The revenue increase of 4.95 percent was primarily due to the normal property tax growth and unanticipated investment earnings growth due to the strengthening of the national economy.

Public safety expenses account for over one-third of the total expenses of the governmental activities. General government and public works expenses were the next largest functions.

In total, expenses increased by approximately \$700,000 from the prior year. Over \$400,000 of the increase is the depreciation of capital assets on the City's books. The balance of expenditures, or \$300,000, was recorded in the general government section of operation. Specifically, one tax tribunal case, an increase in staffing in the probation department of the district court, and overall cost of living labor charges contributed to this increase.

Business-type Activities

The City of Berkley's business-type activities include water and sewer and arena. We provide water and sewer services to residents through contacts or consortiums with the Detroit Water and Sewerage Department. Total net assets of the business-type activities increased by approximately \$575,000. This is primarily a result of operating income in the City's water and sewer activity and a net operating loss of approximately \$45,000 at the ice arena.

The City of Berkley's Funds

Our analysis of the City of Berkley's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages.

The City of Berkley's major funds for the year ended June 30, 2006 include the General Fund, the Major and Local Streets Funds, the Solid Waste Service Fund, and the three Capital Project Road Funds (Major and Local Streets and Eleven Mile Road).

The General Fund pays for most of the City of Berkley's governmental services. The most significant are police and fire, which incurred expenses of approximately \$4,100,000. These services are partially supported by a special public safety millage, which is recorded in the General Fund. During the current year, expenditures recorded in the General Fund directly related to the public safety millage amounted to approximately \$670,000. The remaining cost of the police and fire protection is funded by other general revenue sources of the General Fund.

City of Berkley, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the City of Berkley amended the General Fund budget to take into account events during the year. The most significant change was to increase the estimated fines and forfeitures and other revenue lines by approximately \$121,000 and \$239,000, respectively. This was primarily a result of increased traffic fees and insurance refunds. Total expenditures were only approximately \$13,000 over budget, resulting in an overall increase to the General Fund fund balance of \$245,000.

Capital Asset and Debt Administration

At the end of 2006, the City of Berkley had \$17,500,000 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the City of Berkley has invested significantly in roads within the City of Berkley. Additions to capital assets include the construction in progress on various major and local streets throughout the city, sewer line relining program, as well as new water meters, drain improvements, patrol cars and reinvestment in various city facilities. Additional information regarding the City's capital assets and debt can be found within the notes to the basic financial statements.

The City will continue the major and local road improvement projects in the upcoming year, which includes various funding sources including the May 2006 bond issue and federal grant monies.

Economic Factors and Next Year's Budgets and Rates

The City will continue to face difficulty maintaining a balanced budget due to inherent limitations on its primary sources of revenue. Two major sources of unrestricted revenue for the City are property taxes from operating millages and state-shared revenue, both of which are subject to limitations that will prevent them from increasing by much more than the rate of inflation for at least the foreseeable future. On the other hand, expenses are expected to increase by more than inflation in many areas such as health insurance, current retiree benefits, energy costs, and the potential funding of future retiree health care liabilities. Through the use of long-term planning, the City will continue to evaluate and monitor its budget. Adjustments will be made to address changes in economic conditions and other events.

Contacting the City of Berkley's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City of Berkley's finances and to show the City of Berkley's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the city finance director's office.

City of Berkley, Michigan

Statement of Net Assets June 30, 2006

| | Primary Government | | | Component |
|--|----------------------|---------------------|----------------------|-------------------|
| | Governmental | Business-type | | Units |
| | Activities | Activities | Total | |
| Assets | | | | |
| Cash and cash equivalents (Note 4) | \$ 8,032,056 | \$ 2,061,621 | \$ 10,093,677 | \$ 378,248 |
| Receivables: | | | | |
| Taxes | 32,421 | - | 32,421 | 13,817 |
| Customers | 25,354 | 1,992,748 | 2,018,102 | - |
| Other governmental units | 826,739 | - | 826,739 | - |
| Inventories | 29,135 | - | 29,135 | - |
| Prepaid costs | 199,543 | - | 199,543 | - |
| Internal balances (Note 6) | 27,339 | (27,339) | - | - |
| Restricted assets (Note 8) | 4,379,345 | - | 4,379,345 | - |
| Capital assets (Note 5): | | | | |
| Nondepreciable | 1,652,813 | 13,795 | 1,666,608 | - |
| Depreciable - Net | 12,571,003 | 3,232,319 | 15,803,322 | - |
| Total assets | 27,775,748 | 7,273,144 | 35,048,892 | 392,065 |
| Liabilities | | | | |
| Accounts payable | 1,550,156 | 183,275 | 1,733,431 | 23,466 |
| Accrued and other liabilities | 302,652 | 109,875 | 412,527 | - |
| Noncurrent liabilities (Note 7): | | | | |
| Due within one year | 791,274 | 35,000 | 826,274 | - |
| Due in more than one year | 14,768,896 | 346,189 | 15,115,085 | - |
| Total liabilities | 17,412,978 | 674,339 | 18,087,317 | 23,466 |
| Net Assets | | | | |
| Invested in capital assets - Net of related debt | 3,966,796 | 2,921,114 | 6,887,910 | - |
| Restricted: | | | | |
| Construction | 3,088,760 | - | 3,088,760 | - |
| Public safety | 69,779 | - | 69,779 | - |
| Community development and promotion | 55,787 | - | 55,787 | - |
| Sanitation | 252,201 | - | 252,201 | - |
| Recreation | 116,738 | - | 116,738 | - |
| Unrestricted | 2,812,709 | 3,677,691 | 6,490,400 | 368,599 |
| Total net assets | <u>\$ 10,362,770</u> | <u>\$ 6,598,805</u> | <u>\$ 16,961,575</u> | <u>\$ 368,599</u> |

City of Berkley, Michigan

| | | Program Revenues | | |
|---|----------------------|----------------------|--|--|
| | | | Operating Grants and Contributions | Capital Grants and Contributions |
| | Expenses | Charges for Services | | |
| Functions/Programs | | | | |
| Primary government: | | | | |
| Governmental activities: | | | | |
| General government | \$ 2,465,003 | \$ 1,418,773 | \$ 66,216 | \$ 69,965 |
| Public safety | 3,984,638 | 228,950 | 29,440 | - |
| Public works | 2,380,517 | 280,564 | 937,776 | - |
| Health and welfare | 121,006 | - | 30,220 | - |
| Recreation and culture | 1,681,961 | 388,116 | 73,728 | 4,494 |
| Interest on long-term debt | 266,936 | - | - | - |
| Total governmental activities | 10,900,061 | 2,316,403 | 1,137,380 | 74,459 |
| Business-type activities: | | | | |
| Water and sewer | 2,942,099 | 3,990,896 | - | - |
| Arena | 528,272 | 472,655 | - | - |
| Total business-type activities | 3,470,371 | 4,463,551 | - | - |
| Total primary government | <u>\$ 14,370,432</u> | <u>\$ 6,779,954</u> | <u>\$ 1,137,380</u> | <u>\$ 74,459</u> |
| Component unit - Downtown Development Authority | | | | |
| | <u>\$ 184,732</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| General revenues: | | | | |
| Property taxes | | | | |
| State-shared revenues | | | | |
| Unrestricted investment earnings | | | | |
| Franchise fees | | | | |
| Miscellaneous | | | | |
| Transfers | | | | |
| Total general revenues and transfers | | | | |
| Change in Net Assets | | | | |
| Net Assets - Beginning of year, as restated (Note 2) | | | | |
| Net Assets - End of year | | | | |

Statement of Activities
Year Ended June 30, 2006

| Net (Expense) Revenue and Changes in Net Assets | | | |
|---|-----------------------------|----------------------|--------------------|
| Primary Government | | | Component Units |
| Governmental Activities | Business-type Activities | Total | |
| \$ (910,049) | \$ - | \$ (910,049) | \$ - |
| (3,726,248) | - | (3,726,248) | - |
| (1,162,177) | - | (1,162,177) | - |
| (90,786) | - | (90,786) | - |
| (1,215,623) | - | (1,215,623) | - |
| (266,936) | - | (266,936) | - |
| (7,371,819) | - | (7,371,819) | - |
| - | 1,048,797 | 1,048,797 | - |
| - | (55,617) | (55,617) | - |
| - | 993,180 | 993,180 | - |
| (7,371,819) | 993,180 | (6,378,639) | - |
| - | - | - | (184,732) |
| 6,199,398 | - | 6,199,398 | 183,771 |
| 1,465,184 | - | 1,465,184 | - |
| 405,303 | 84,484 | 489,787 | 17,391 |
| 194,955 | - | 194,955 | - |
| 344,544 | - | 344,544 | 1,383 |
| 502,987 | (502,987) | - | - |
| 9,112,371 | (418,503) | 8,693,868 | 202,545 |
| 1,740,552 | 574,677 | 2,315,229 | 17,813 |
| 8,622,218 | 6,024,128 | 14,646,346 | 350,786 |
| \$ 10,362,770 | \$ 6,598,805 | \$ 16,961,575 | \$ 368,599 |

City of Berkley, Michigan

Governmental Funds Balance Sheet June 30, 2006

| | Major Special Revenue Funds | | | | Major Capital Project Fund | | Nonmajor | Total |
|---|-----------------------------|---------------------|---------------------|--------------------------|----------------------------------|--------------------------|---------------------|----------------------|
| | General Fund | Major Street Fund | Local Street Fund | Solid Waste Service Fund | Major and Local Streets Projects | Eleven Mile Road Project | Governmental Funds | Governmental Funds |
| Assets | | | | | | | | |
| Cash and cash equivalents (Note 4) | \$ 2,005,261 | \$ 1,536,589 | \$ 1,055,303 | \$ 307,709 | \$ 1,226,128 | \$ 66,963 | \$ 910,298 | \$ 7,108,251 |
| Receivables: | | | | | | | | |
| Due from other funds (Note 6) | 27,339 | - | - | - | - | - | - | 27,339 |
| Taxes | 17,293 | - | - | 14,899 | - | - | 229 | 32,421 |
| Customers | 25,354 | - | - | 3,747 | - | - | - | 29,101 |
| Other governmental units | 474,765 | 100,082 | 39,574 | - | 178,350 | - | 30,221 | 822,992 |
| Prepaid costs | 199,253 | - | - | - | - | - | 290 | 199,543 |
| Inventories | 29,135 | - | - | - | - | - | - | 29,135 |
| Restricted assets (Note 8) | - | - | - | - | 1,343,567 | 2,359,636 | 676,142 | 4,379,345 |
| Total assets | \$ 2,778,400 | \$ 1,636,671 | \$ 1,094,877 | \$ 326,355 | \$ 2,748,045 | \$ 2,426,599 | \$ 1,617,180 | \$ 12,628,127 |
| Liabilities and Fund Balances | | | | | | | | |
| Liabilities | | | | | | | | |
| Accounts payable | \$ 85,591 | \$ 11,633 | \$ 5,959 | \$ 69,473 | \$ 1,180,774 | \$ 24,013 | \$ 172,712 | \$ 1,550,155 |
| Accrued and other liabilities | 192,407 | 3,631 | - | 2,036 | - | - | 4,215 | 202,289 |
| Due to other governmental units | 36,888 | - | - | - | - | - | - | 36,888 |
| Deferred revenue (Note 1) | 42,396 | - | - | 14,899 | 173,355 | - | 25,887 | 256,537 |
| Total liabilities | 357,282 | 15,264 | 5,959 | 86,408 | 1,354,129 | 24,013 | 202,814 | 2,045,869 |
| Fund Balances | | | | | | | | |
| Reserved for: | | | | | | | | |
| Inventory and prepaid items | 228,388 | - | - | - | - | - | - | 228,388 |
| Library | 51,450 | - | - | - | - | - | - | 51,450 |
| Cable | 324,032 | - | - | - | - | - | - | 324,032 |
| Public safety | 7,869 | - | - | - | - | - | - | 7,869 |
| Community promotion | 22,864 | - | - | - | - | - | - | 22,864 |
| Unreserved and undesignated, reported in: | | | | | | | | |
| General Fund | 1,786,515 | - | - | - | - | - | - | 1,786,515 |
| Special Revenue Funds | - | 1,621,407 | 1,088,918 | 239,947 | - | - | 666,799 | 3,617,071 |
| Debt Service Funds | - | - | - | - | - | - | 26,745 | 26,745 |
| Capital Projects Funds | - | - | - | - | 1,393,916 | 2,402,586 | 720,822 | 4,517,324 |
| Total fund balances | 2,421,118 | 1,621,407 | 1,088,918 | 239,947 | 1,393,916 | 2,402,586 | 1,414,366 | 10,582,258 |
| Total liabilities and fund balances | \$ 2,778,400 | \$ 1,636,671 | \$ 1,094,877 | \$ 326,355 | \$ 2,748,045 | \$ 2,426,599 | \$ 1,617,180 | |
| Amounts reported for governmental activities in the statement of net assets are different because: | | | | | | | | |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds | | | | | | | | 14,223,816 |
| Revenue related to receivables is recorded in the statement of net assets at the time it is earned without regard to timeliness of collection | | | | | | | | 256,537 |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds | | | | | | | | (14,636,365) |
| Accrued interest payable is not recorded in the funds | | | | | | | | (63,476) |
| Internal Service Funds are included as part of governmental activities | | | | | | | | - |
| Net assets of governmental activities | | | | | | | | \$ 10,362,770 |

City of Berkley, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

| | Major Special Revenue Funds | | | | Major Capital Project Fund | | Nonmajor | Total |
|--|-----------------------------|---------------------|---------------------|--------------------------|----------------------------------|--------------------------|---------------------|----------------------|
| | General Fund | Major Street Fund | Local Street Fund | Solid Waste Service Fund | Major and Local Streets Projects | Eleven Mile Road Project | Governmental Funds | Governmental Funds |
| Revenue | | | | | | | | |
| Property taxes | \$ 4,895,797 | \$ - | \$ - | \$ 907,527 | \$ - | \$ - | \$ 396,074 | \$ 6,199,398 |
| Licenses and permits | 336,806 | - | - | - | - | - | - | 336,806 |
| Charges for services | 405,796 | 10,110 | - | 240,673 | - | - | 342,040 | 998,619 |
| Federal grants | 10,423 | - | - | - | - | - | 9,263 | 19,686 |
| State-shared revenues and grants | 1,485,676 | 665,786 | 239,669 | - | - | - | 22,832 | 2,413,963 |
| Fines and forfeitures | 955,117 | - | - | - | - | - | 49,531 | 1,004,648 |
| Investment earnings | 155,531 | 55,499 | 40,841 | 19,209 | 32,049 | 30,278 | 39,965 | 373,372 |
| Franchise fees | 194,955 | - | - | - | - | - | - | 194,955 |
| Other | 322,409 | 8,272 | 3,516 | 4,409 | 18,388 | 12,756 | 134,665 | 504,415 |
| Total revenue | 8,762,510 | 739,667 | 284,026 | 1,171,818 | 50,437 | 43,034 | 994,370 | 12,045,862 |
| Expenditures | | | | | | | | |
| Current: | | | | | | | | |
| General government | 2,497,257 | 8,014 | 10,141 | - | - | - | 40,116 | 2,555,528 |
| Public safety | 4,094,554 | - | - | - | - | - | 11,250 | 4,105,804 |
| Public works | 541,264 | 332,553 | 306,332 | 1,086,464 | - | - | - | 2,266,613 |
| Health and welfare | 63,860 | - | - | - | - | - | 137,798 | 201,658 |
| Recreation and culture | 1,266,472 | - | - | - | - | - | 205,691 | 1,472,163 |
| Debt service: | | | | | | | | |
| Principal retirement | 31,509 | - | - | - | - | - | 709,462 | 740,971 |
| Interest and other fiscal charges | - | - | - | - | - | - | 289,918 | 289,918 |
| Capital outlay | - | - | - | - | 1,281,433 | 140,364 | 185,402 | 1,607,199 |
| Total expenditures | 8,494,916 | 340,567 | 316,473 | 1,086,464 | 1,281,433 | 140,364 | 1,579,637 | 13,239,854 |
| Excess of Revenue Over (Under) Expenditures | 267,594 | 399,100 | (32,447) | 85,354 | (1,230,996) | (97,330) | (585,267) | (1,193,992) |
| Other Financing Sources (Uses) | | | | | | | | |
| Bond proceeds | - | - | - | - | 2,625,000 | 2,500,000 | 850,000 | 5,975,000 |
| Transfers in (Note 6) | 45,000 | - | 162,000 | - | - | - | 571,125 | 778,125 |
| Transfers out (Note 6) | (67,938) | (162,000) | - | - | (88) | (84) | (45,028) | (275,138) |
| Total other financing sources (uses) | (22,938) | (162,000) | 162,000 | - | 2,624,912 | 2,499,916 | 1,376,097 | 6,477,987 |
| Net Change in Fund Balances | 244,656 | 237,100 | 129,553 | 85,354 | 1,393,916 | 2,402,586 | 790,830 | 5,283,995 |
| Fund Balances - Beginning of year | 2,176,462 | 1,384,307 | 959,365 | 154,593 | - | - | 623,536 | 5,298,263 |
| Fund Balances - End of year | \$ 2,421,118 | \$ 1,621,407 | \$ 1,088,918 | \$ 239,947 | \$ 1,393,916 | \$ 2,402,586 | \$ 1,414,366 | \$ 10,582,258 |

City of Berkley, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds \$ 5,283,995

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

| | |
|-------------------------------------|-----------|
| Capital outlay expenditures | 2,300,418 |
| Depreciation expense | (827,203) |
| Netbook value of assets disposed of | (57,855) |

| | |
|--|---------|
| Revenue reported in the statement of activities that does not provide current financial resources is not reported as revenue in the governmental funds | 182,279 |
|--|---------|

| | |
|---|---------|
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) | 750,959 |
|---|---------|

| | |
|---|-------------|
| Bond proceeds are recorded as other financing sources in the governmental funds, but not in the statement of activities (where is increases long-term debt) | (5,975,000) |
|---|-------------|

| | |
|---|--------|
| Revenue from donated assets is recorded in the statement of activities, but not in the governmental funds | 69,965 |
|---|--------|

| | |
|---|--------|
| Accrued interest is recorded on debt when incurred in the statement of activities | 12,994 |
|---|--------|

| | |
|---|---|
| Internal Service Funds are also included as governmental activities | - |
|---|---|

Change in Net Assets of Governmental Activities \$ 1,740,552

City of Berkley, Michigan

Proprietary Funds Statement of Net Assets June 30, 2006

| | Enterprise Funds | | Governmental Activities |
|--|-------------------------|------------|--|
| | Water and Sewer Fund | Arena Fund | Internal Service Fund - Fringe Benefits Fund |
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents (Note 4) | \$ 2,060,270 | \$ 1,351 | \$ 2,061,621 |
| Receivables - Customers | 1,957,512 | 35,236 | 1,992,748 |
| Total current assets | 4,017,782 | 36,587 | 4,054,369 |
| Capital assets (Note 5): | | | |
| Nondepreciable | 13,795 | - | 13,795 |
| Depreciable - Net | 2,826,305 | 406,014 | 3,232,319 |
| Total capital assets | 2,840,100 | 406,014 | 3,246,114 |
| Total assets | 6,857,882 | 442,601 | 7,300,483 |
| | | | 923,805 |
| Liabilities | | | |
| Current liabilities: | | | |
| Current portion of long-term debt (Note 7) | - | 35,000 | 35,000 |
| Due to other funds (Note 6) | - | 27,339 | 27,339 |
| Accounts payable | 182,027 | 1,248 | 183,275 |
| Accrued and other liabilities | 102,093 | 7,782 | 109,875 |
| Total current liabilities | 284,120 | 71,369 | 355,489 |
| Long-term debt - Net of current portion (Note 7) | 56,189 | 290,000 | 346,189 |
| Total liabilities | 340,309 | 361,369 | 701,678 |
| | | | 923,805 |
| Net Assets | | | |
| Invested in capital assets - Net of related debt | 2,840,100 | 81,014 | 2,921,114 |
| Unrestricted | 3,677,473 | 218 | 3,677,691 |
| Total net assets | \$ 6,517,573 | \$ 81,232 | \$ 6,598,805 |
| | | | \$ - |

City of Berkley, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2006

| | Enterprise Funds | | | Governmental Activities |
|---|-------------------------|------------------|---------------------------|--|
| | Water and Sewer Fund | Arena Fund | Total Enterprise Funds | Internal Service Fund - Fringe Benefits Fund |
| Operating Revenue | | | | |
| Charges for services | \$ 3,889,207 | \$ 472,655 | \$ 4,361,862 | \$ 184,866 |
| Property and equipment rental | 21,667 | - | 21,667 | - |
| Miscellaneous | 80,022 | - | 80,022 | - |
| Total operating revenue | 3,990,896 | 472,655 | 4,463,551 | 184,866 |
| Operating Expenses | | | | |
| Arena operations | - | 439,816 | 439,816 | - |
| Water and sewer operations | 2,812,157 | - | 2,812,157 | - |
| Compensated absences | - | - | - | 216,309 |
| Depreciation | 129,942 | 46,173 | 176,115 | - |
| Total operating expenses | 2,942,099 | 485,989 | 3,428,088 | 216,309 |
| Operating Income (Loss) | 1,048,797 | (13,334) | 1,035,463 | (31,443) |
| Nonoperating Revenue (Expenses) | | | | |
| Investment income | 84,215 | 269 | 84,484 | 31,443 |
| Interest expense | - | (42,283) | (42,283) | - |
| Income (Loss) - Before transfers | 1,133,012 | (55,348) | 1,077,664 | - |
| Transfers In (Note 6) | - | 10,823 | 10,823 | - |
| Transfers Out (Note 6) | (513,810) | - | (513,810) | - |
| Total transfers | (513,810) | 10,823 | (502,987) | - |
| Change in Net Assets | 619,202 | (44,525) | 574,677 | - |
| Net Assets - Beginning of year, as restated (Note 2) | 5,898,371 | 125,757 | 6,024,128 | - |
| Net Assets - End of year | <u>\$ 6,517,573</u> | <u>\$ 81,232</u> | <u>\$ 6,598,805</u> | <u>\$ -</u> |

City of Berkley, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2006

| | Enterprise Funds | | | Governmental Activities |
|---|-------------------------|------------------|---------------------------|---|
| | Water and Sewer Fund | Arena Fund | Total Enterprise Funds | Internal Service Fund - Fringe Benefits Fund |
| Cash Flows from Operating Activities | | | | |
| Receipts from customers | \$ 3,899,497 | \$ 465,297 | \$ 4,364,794 | \$ 184,866 |
| Payments to suppliers | (2,497,727) | (279,481) | (2,777,208) | - |
| Payments to employees | (214,276) | (156,690) | (370,966) | (179,841) |
| Net cash provided by operating activities | 1,187,494 | 29,126 | 1,216,620 | 5,025 |
| Cash Flows from Capital and Related Financing Activities | | | | |
| Purchase of capital assets | (514,661) | (31,915) | (546,576) | - |
| Cash paid to other funds for repayment of capital debt | (498,810) | (67,670) | (566,480) | - |
| Net cash used in capital and related financing activities | (1,013,471) | (99,585) | (1,113,056) | - |
| Cash Flows from Noncapital Financing Activities | | | | |
| Cash received from other funds | - | 38,162 | 38,162 | - |
| Cash paid to other funds | (15,000) | - | (15,000) | - |
| Net cash provided by (used in) noncapital financing activities | (15,000) | 38,162 | 23,162 | - |
| Cash Flows from Investing Activities - Interest received on investments | 84,215 | 269 | 84,484 | 31,443 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 243,238 | (32,028) | 211,210 | 36,468 |
| Cash and Cash Equivalents - Beginning of year | 1,817,032 | 33,379 | 1,850,411 | 887,337 |
| Cash and Cash Equivalents - End of year | <u>\$ 2,060,270</u> | <u>\$ 1,351</u> | <u>\$ 2,061,621</u> | <u>\$ 923,805</u> |
| Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities | | | | |
| Operating income (loss) | \$ 1,048,797 | \$ (13,334) | \$ 1,035,463 | \$ (31,443) |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | | |
| Depreciation and amortization | 129,942 | 46,173 | 176,115 | - |
| Changes in assets and liabilities: | | | | |
| Receivables | (91,399) | (7,358) | (98,757) | - |
| Prepays | - | - | - | 2,616 |
| Accounts payable | (34,519) | 476 | (34,043) | - |
| Accrued and other liabilities | 134,673 | 3,169 | 137,842 | 33,852 |
| Net cash provided by operating activities | <u>\$ 1,187,494</u> | <u>\$ 29,126</u> | <u>\$ 1,216,620</u> | <u>\$ 5,025</u> |

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2006, there were no noncash investing, capital, or financing activities.

City of Berkley, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2006

| | Pension and Other Employee Benefits Trust Fund - Public Safety Pension | Agency Funds |
|--|---|-------------------|
| Assets | | |
| Cash and cash equivalents (Note 4) | \$ 1,163,130 | \$ 260,263 |
| Investments (Note 4): | | |
| Mutual funds | 706,110 | - |
| Common stock | 10,596,687 | - |
| Corporate bonds | 4,055,446 | - |
| U.S. treasury bonds | 548,106 | - |
| U.S. government agency securities | 455,566 | - |
| Accrued interest | 43,612 | - |
| | | |
| Total assets | 17,568,657 | <u>\$ 260,263</u> |
| Liabilities | | |
| Cash bonds and deposits | - | 237,139 |
| Due to other governmental units | - | 23,124 |
| | | |
| Total liabilities | - | <u>\$ 260,263</u> |
| Net Assets - Held in trust for pension and other employee benefits | <u>\$ 17,568,657</u> | |

City of Berkley, Michigan

Fiduciary Funds **Statement of Changes in Net Assets** **Pension and Other Employee Benefits Trust Fund - Public Safety Pension** **Year Ended June 30, 2006**

Additions

| | |
|---|------------------|
| Investment income: | |
| Interest and dividends | \$ 374,270 |
| Net increase in fair value of investments | 1,078,399 |
| Less investment expenses | <u>(151,565)</u> |
| Net investment income | 1,301,104 |
| Contributions | |
| Employer | 377,256 |
| Employee | <u>5,322</u> |
| Total additions | 1,683,682 |

Deductions

| | |
|-------------------------|----------------|
| Benefit payments | 963,385 |
| Administrative expenses | <u>608</u> |
| Total deductions | <u>963,993</u> |

Net Increase 719,689

Net Assets Held in Trust for Pension and Other Employee Benefits

| | |
|-------------------|-----------------------------|
| Beginning of year | <u>16,848,968</u> |
| End of year | <u><u>\$ 17,568,657</u></u> |

City of Berkley, Michigan

Component Units Statement of Net Assets June 30, 2006

| | |
|---------------------------------------|--------------------------------------|
| | Downtown Development Authority |
| Assets | |
| Cash and investments | \$ 378,248 |
| Taxes receivable | <u>13,817</u> |
| Total assets | 392,065 |
| Liabilities - Accounts payable | <u>23,466</u> |
| Net Assets - Unrestricted | <u><u>\$ 368,599</u></u> |

City of Berkley, Michigan

Component Units Statement of Activities Year Ended June 30, 2006

| | <u>Program Revenues</u> | | Net (Expense) |
|---|-------------------------|------------------------------------|--------------------------|
| | | | Revenue and |
| | Expenses | Operating Grants/ Contributions | Changes in Net Assets |
| Downtown Development Authority - | | | |
| Community and economic development | <u>\$ 184,732</u> | <u>\$ -</u> | \$ (184,732) |
| General Revenues | | | |
| Property taxes | | | 183,771 |
| Unrestricted investment earnings | | | 17,391 |
| Other income | | | <u>1,383</u> |
| Total general revenues | | | <u>202,545</u> |
| Change in Net Assets | | | 17,813 |
| Net Assets - Beginning of year | | | <u>350,786</u> |
| Net Assets - End of year | | | <u><u>\$ 368,599</u></u> |

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Berkley, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Berkley, Michigan:

Reporting Entity

The City of Berkley, Michigan is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Unit - The City of Berkley's Building Authority is governed by a three-member board that is appointed by the City's council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to acquire, furnish, equip, own, improve, enlarge, operate, and maintain the ice arena and horseshoe pit for the use or benefit of the City.

Discretely Presented Component Unit - The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of 10 individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council. Complete financial statements can be obtained from the City of Berkley at 3338 Coolidge, Berkley, Michigan 48072.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the discretely presented component unit for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, receivables have been recorded along with a "deferred revenue" liability for property taxes that are collected after the period of availability.

Note I - Summary of Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund - The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

Local Street Fund - The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

Solid Waste Service Fund - The Solid Waste Service Fund accounts for the collection and disposal of household waste, recyclables, and yard waste. The fund is financed by a special tax levy.

Major and Local Street Projects Fund - The Major and Local Street Projects Fund accounts for the construction, maintenance, and improvement of several construction projects beginning in the year ended June 30, 2006. The fund is financed by a general obligation bond.

Eleven Mile Road Project Fund - The Eleven Mile Road Project Fund accounts for the construction, maintenance, and improvement of Eleven Mile Road. The fund is financed by a general obligation bond.

The City reports the following major Enterprise Funds:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution and sewage collection systems.

Arena Fund - The Arena Fund accounts for all activities of the city ice arena.

Additionally, the City reports the following fund types:

Internal Service Fund - The Internal Service Fund accounts for the financing of the City's liability for employee compensated absences.

Note I - Summary of Significant Accounting Policies (Continued)

Pension and Other Employee Benefits Trust Fund - The Pension and Other Employee Benefits Trust Fund accounts for the activities of the public safety employees' retirement system, which accumulates resources for pension benefit payments to qualified public safety employees.

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City of Berkley's policy is to first apply restricted resources.

Note I - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City of Berkley's 2005 tax is levied and collectible on July 1, 2005 and is recognized as revenue in the year ended June 30, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the City of Berkley totaled \$478,832,000 (a portion of which is captured by the DDA), on which taxes levied consisted of 8.3410 mills for operating and public safety purposes, 1.9246 mills for sanitation services, 0.1044 mills for community promotion, 1.4150 mills for public safety pension, and 0.8400 mills for debt service. This resulted in approximately \$3,969,000 for operating and public safety, \$908,000 for sanitation, \$49,000 for community promotion, \$667,000 for public safety pension, and \$396,000 for debt service. These amounts are recognized in the respective General, Special Revenue, and Debt Service Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from all funds is generally allocated to each fund using a weighted average.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Note 1 - Summary of Significant Accounting Policies (Continued)

Deferred Revenue - Deferred revenue is recorded in the governmental funds in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period.

Capital assets are depreciated using the straight-line method over the following useful lives:

| | |
|-----------------------|----------------|
| Infrastructure | 25 to 84 years |
| Land improvements | 20 years |
| Buildings | 15 to 50 years |
| Building improvements | 7 to 20 years |
| Equipment and books | 3 to 15 years |
| Vehicles | 5 to 10 years |

Compensated Absences (Annual and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and annual leave pay. All annual leave and sick pay related to governmental activities and the ice arena are accrued when incurred in the Internal Service Fund. Annual leave and sick pay related to the Water and Sewer Fund is accrued when incurred in the Water and Sewer Fund.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Prior Period Adjustment

In prior years, the City did not timely recognize revenue for certain water and sewer billings. As a result of this change, net assets of the Water and Sewer Fund and of the business-type activities were increased by \$279,318. Had this error not been made, the prior year change in net assets of the Water and Sewer Fund and the business-type activities would have been higher by \$1,626.

Note 3 - Stewardship, Compliance, and Accountability Construction Code Fees

Budgetary Information

The City is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). The annual budget is prepared by the city manager and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2006 has not been calculated.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that transfers have been included in the revenue and expenditures categories, rather than as other financing sources (uses) and the employer contributions to the Public Safety Pension Fund have been included in the transfers out category, rather than as public safety expenditures. The budgetary comparison schedules (General Fund and major Special Revenue Funds) are presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results as adopted by the City Council is included in the required supplemental information.

City of Berkley, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Stewardship, Compliance, and Accountability Construction Code Fees (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were in excess of the amount budgeted as follows:

| | <u>Budget</u> | <u>Actual</u> |
|-------------------------------|---------------|---------------|
| General Fund: | | |
| General government: | | |
| Insurance | \$ 330,020 | \$ 337,649 |
| Employee benefits | 100,000 | 184,866 |
| Public safety: | | |
| Administration | 158,809 | 161,429 |
| Operations | 2,795,774 | 2,859,624 |
| Pension administration | 344,297 | 351,843 |
| Public works: | | |
| Garage | 84,564 | 89,156 |
| Street programs | 136,004 | 147,761 |
| Recreation and culture - WBRK | 95,790 | 97,964 |

City of Berkley, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Stewardship, Compliance, and Accountability Construction Code Fees (Continued)

Construction Code Fees - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

| | | | |
|--------------------------------------|----|-----------------|-------------------------|
| Cumulative shortfall - July 1, 2005 | | \$ | (50,801) |
| Current year building permit revenue | | | 179,527 |
| Related expenses: | | | |
| Direct costs | \$ | (231,092) | |
| Estimated indirect costs | | <u>(23,109)</u> | <u>(254,201)</u> |
| Current year shortfall | | | <u>(74,674)</u> |
| Cumulative shortfall - June 30, 2006 | | \$ | <u><u>(125,475)</u></u> |

Note 4 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Note 4 - Deposits and Investments (Continued)

The Pension Trust Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated two banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in accordance with Public Act 20 of 1943, as amended. The City's deposits and investment policies are in accordance with statutory authority.

The City's deposits and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the City had \$15,929,651 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of the Public Safety Pension fixed income investments are as follows:

| Investment | Fair Value | Weighted Average Maturity |
|------------------------------|--------------|---------------------------------|
| Corporate bonds | \$ 4,055,446 | 15.16 years |
| U.S. treasury bonds | 548,106 | 5.79 years |
| Government agency securities | 455,566 | 3.08 years |

Note 4 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of Public Safety Pension debt securities (other than the U.S. government) are as follows:

| Investment | Fair Value | Rating | Rating Organization |
|------------------------------|------------|-----------|---------------------|
| Corporate bonds | \$ 303,748 | A | Standard & Poor's |
| Corporate bonds | 904,045 | A+ | Standard & Poor's |
| Corporate bonds | 416,324 | A- | Standard & Poor's |
| Corporate bonds | 83,030 | AA | Standard & Poor's |
| Corporate bonds | 306,621 | AA- | Standard & Poor's |
| Corporate bonds | 77,766 | AAA | Standard & Poor's |
| Corporate bonds | 301,158 | BB+ | Standard & Poor's |
| Corporate bonds | 480,531 | BBB | Standard & Poor's |
| Corporate bonds | 379,555 | BBB+ | Standard & Poor's |
| Corporate bonds | 619,057 | BBB- | Standard & Poor's |
| Corporate bonds | 183,610 | Not Rated | Standard & Poor's |
| Government agency securities | 455,566 | AAA | Standard & Poor's |

City of Berkley, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

| | Balance July 1, 2005 | Additions | Disposals and Adjustments | Balance June 30, 2006 |
|---------------------------------------|-------------------------|--------------|------------------------------|--------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 219,974 | \$ - | \$ - | \$ 219,974 |
| Construction in process | 621,597 | 1,432,839 | 621,597 | 1,432,839 |
| Subtotal | 841,571 | 1,432,839 | 621,597 | 1,652,813 |
| Capital assets being depreciated: | | | | |
| Infrastructure | 49,083,571 | 705,803 | - | 49,789,374 |
| Buildings | 6,111,498 | 53,900 | - | 6,165,398 |
| Equipment and books | 1,484,429 | 258,677 | 83,681 | 1,659,425 |
| Vehicles | 1,408,854 | 540,761 | 190,043 | 1,759,572 |
| Subtotal | 58,088,352 | 1,559,141 | 273,724 | 59,373,769 |
| Accumulated depreciation: | | | | |
| Infrastructure | 40,731,162 | 146,468 | - | 40,877,630 |
| Buildings | 3,524,454 | 110,328 | - | 3,634,782 |
| Equipment and books | 989,668 | 155,945 | 83,681 | 1,061,932 |
| Vehicles | 946,148 | 414,462 | 132,188 | 1,228,422 |
| Total accumulated depreciation | 46,191,432 | 827,203 | 215,869 | 46,802,766 |
| Net capital assets being depreciated | 11,896,920 | 731,938 | 57,855 | 12,571,003 |
| Net capital assets | \$ 12,738,491 | \$ 2,164,777 | \$ 679,452 | \$ 14,223,816 |

City of Berkley, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

| Business-type Activities | Balance July 1, 2005 | Additions | Disposals and Adjustments | Balance June 30, 2006 |
|---|-------------------------|-------------------|------------------------------|--------------------------|
| Capital assets not being depreciated - Land | \$ 13,795 | \$ - | \$ - | \$ 13,795 |
| Capital assets being depreciated: | | | | |
| Infrastructure | 3,409,700 | 502,065 | - | 3,911,765 |
| Land improvements | 36,474 | - | - | 36,474 |
| Buildings | 958,924 | - | - | 958,924 |
| Building improvements | 167,092 | - | - | 167,092 |
| Equipment | 1,097,702 | 44,511 | 94,964 | 1,047,249 |
| Subtotal | 5,669,892 | 546,576 | 94,964 | 6,121,504 |
| Accumulated depreciation: | | | | |
| Infrastructure | 1,218,267 | 74,901 | - | 1,293,168 |
| Land improvements | 36,474 | - | - | 36,474 |
| Buildings | 578,375 | 40,183 | - | 618,558 |
| Building improvements | 115,336 | 7,065 | - | 122,401 |
| Equipment | 859,582 | 53,966 | 94,964 | 818,584 |
| Total accumulated depreciation | 2,808,034 | 176,115 | 94,964 | 2,889,185 |
| Net capital assets being depreciated | 2,861,858 | 370,461 | - | 3,232,319 |
| Net capital assets | <u>\$ 2,875,653</u> | <u>\$ 370,461</u> | <u>\$ -</u> | <u>\$ 3,246,114</u> |

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

| | |
|------------------------|-----------|
| General government | \$ 60,999 |
| Public safety | 413,318 |
| Public works | 198,550 |
| Recreation and culture | 154,336 |

Total governmental activities \$ 827,203

Business-type activities:

| | |
|-----------------|------------|
| Water and sewer | \$ 129,942 |
| Arena | 46,173 |

Total business-type activities \$ 176,115

Construction Commitments - The City has active road construction projects at year end related to the \$5,975,000 City of Berkley, Unlimited Tax General Obligation Bonds, Series 2006 bond issue.

Note 5 - Capital Assets (Continued)

The City of Berkley has entered into various agreements and joint ventures to repair, rehabilitate, and replace roads and sidewalks throughout the City. The committed contractual work is as follows as of June 30, 2006:

Major Street Work

Major street work includes Catalpa Drive from Greenfield to Woodward and Coolidge Highway from Eleven Mile Road to Twelve Mile Road. The Catalpa rehabilitation work includes asphalt repaving, drainage work, and street remarking. Coolidge Highway rehabilitation work includes asphalt repaving, curb replacement/repair and sidewalk replacement, drainage replacement, and street marking.

Local Street Work

Local street work includes various local street repairs throughout the City. A street listing can be obtained from the city manager's office or the Department of Public Works of the City of Berkley. Work includes removing pavement, adjusting and reconstructing structures, concrete pavement with curbs and gutters, drainage, sidewalk ramps, and street marking.

Eleven Mile Road Work

This project is being done as a joint venture with the Cities of Huntington Woods and Oak Park. Phase I will be road reconstruction and replacement from Greenfield Road to Coolidge Highway. Phase II will be road reconstruction and replacement from Coolidge Highway to Woodward Avenue. The work on Eleven Mile Road will also include a total water main replacement for the City of Berkley. Federal and state funding is also being utilized to defray the costs of this project with the City of Berkley's share of funding and cost amounting to 44 percent of the total project. The City of Oak Park is the lead agency for this project. The City of Oak Park processes all payment requests, bills the appropriate funding agencies, and makes all payments to contractors/vendors. Berkley pays their share of the project costs directly to the City of Oak Park.

Twelve Mile Road Work

Twelve Mile Road rehabilitation will be from Tyler Avenue to Kenmore Avenue. Twelve Mile Road rehabilitation includes removing pavement, trees, and drainage structures and providing for a new asphalt road with concrete base pavement, new drainage, sidewalks, and street markings. New lighting, planter boxes, irrigation, and other streetscape items were also introduced to this area.

City of Berkley, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

A special assessment district was formed by the City to defray the cost of sidewalk reconstruction in the area. The total cost is \$118,504, with the initial funding coming from the City's General Fund, with the funds being reimbursed by the Special Assessment District to the General Fund over five years at a simple interest rate of 5 percent on any unpaid balance starting in January 2007. This cost is not reflected in the table illustrated below.

Webster Road

The Webster Road rehabilitation project is being done in conjunction with the City of Royal Oak. In accordance with an approved contract between the City of Berkley and the City of Royal Oak, the City of Berkley pays all costs and the City of Royal Oak reimburses the City of Berkley for said costs incurred on the Royal Oak side of Webster Avenue. Approximately \$178,400 is due the City of Berkley for Royal Oak's share of the Webster Road project at June 30, 2006. Work to be done includes removing pavement, reconstructing the structure as required, concrete replacement sidewalk ramps, and street markings where applicable.

Approximately one month's work was completed at June 30, 2006 for all road projects. Total construction payments for all road projects amounted to \$1,573,190 through June 30, 2006.

Contracts were bid and awarded in May 2006 with the exception of the Eleven Mile Road project. The bids will not be received until December 2006 or January 2007. The commitments for repair and replacement including engineering (15 percent) and contingency (10 percent) through June 30, 2006 are as follows:

| <u>Municipality</u> | <u>Major Streets</u> | <u>Local Streets</u> | <u>Webster</u> | <u>Eleven Mile</u> | <u>Twelve Mile</u> |
|----------------------|----------------------|----------------------|-------------------|---------------------|--------------------|
| Berkley | \$ 1,834,900 | \$ 1,499,026 | \$ 311,254 | \$ 3,027,996 | \$ 1,029,861 |
| Royal Oak | - | - | 232,592 | - | - |
| Total commitments | 1,834,900 | 1,499,026 | 543,846 | 3,027,996 | 1,029,861 |
| Spent to date | (611,287) | (242,756) | (403,051) | (117,942) | (173,858) |
| Remaining commitment | <u>\$ 1,223,613</u> | <u>\$ 2,256,270</u> | <u>\$ 140,795</u> | <u>\$ 2,910,054</u> | <u>\$ 856,003</u> |

The Eleven Mile Road cost is for actual preliminary engineering that has been paid through June 30, 2006. It is estimated that Berkley's share of the Eleven Mile Road project will be \$6,577,000 once the project is complete. Water main costs are not reflected in the Eleven Mile Road totals as of June 30, 2006 due to cost and cost sharing being undeterminable at June 30, 2006.

City of Berkley, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

In addition, the City has committed to participating in two additional series of the George W. Kuhn Bonds which are anticipated to occur in the year ended June 30, 2007 in the total amount of \$834,183.

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

| Receivable Fund | Payable Fund | Amount |
|-----------------|----------------|-----------|
| General Fund | Ice Arena Fund | \$ 27,339 |

Interfund balances represent routine and temporary cash flow assistance until funds are transferred from cash accounts.

Interfund transfers reported in the fund financial statements are comprised of the following:

| Fund Providing Resources | Fund Receiving Resources | Amount |
|-----------------------------|-----------------------------|-------------------|
| General Fund | Nonmajor Governmental Funds | \$ 57,115 |
| General Fund | Arena Fund | 10,823 |
| Major Streets Fund | Local Streets Fund | 162,000 |
| Nonmajor Governmental Funds | General Fund | 45,000 |
| Nonmajor Governmental Funds | Nonmajor Governmental Funds | 200 |
| Water and Sewer Fund | Nonmajor Governmental Funds | 513,810 |
| | Total | <u>\$ 788,948</u> |

The transfer from the Major Streets Fund to the Local Streets Fund represents the sharing of gas and weight tax revenues in accordance with Act 51; the transfer from the Water and Sewer Fund to the Nonmajor Governmental Funds is to pay debt service on Kuhn bond drains and other operating expenses.

Note 7 - Long-term Debt

The City of Berkley issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the City.

City of Berkley, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

| | Interest Rate Ranges | Principal Maturity Ranges | Beginning Balance | Additions | (Reductions) | Ending Balance | Due Within One Year |
|--|----------------------------|---------------------------------|----------------------|---------------------|---------------------|----------------------|------------------------|
| Governmental Activities | | | | | | | |
| 1995 Energy Conservation Project Amount of issue: \$584,000 Maturing through 2011 | 5.95% | \$33,625 - \$77,802 | \$ 274,041 | \$ - | \$ (33,625) | \$ 240,416 | \$ 33,625 |
| 1996 General Obligation Library Bonds Amount of issue: \$2,650,000 Maturing through 2007 | 4.50% - 4.70% | \$350,000 - \$400,000 | 775,000 | - | (375,000) | 400,000 | 400,000 |
| 2006 General Obligation 12 Mile Road Bonds Amount of issue: \$850,000 Maturing through 2016 | 3.90% - 4.25% | \$50,000 - \$150,000 | - | 850,000 | - | 850,000 | - |
| 2006 General Obligation 11 Mile Road Bonds Amount of issue: \$2,500,000 Maturing through 2021 | 3.90% - 4.25% | \$100,000 \$300,000 | - | 2,500,000 | - | 2,500,000 | - |
| 2006 General Obligation Other Roads Bonds Amount of issue: \$2,625,000 Maturing through 2016 | 3.90% - 4.25% | \$200,000 \$375,000 | - | 2,625,000 | - | 2,625,000 | - |
| Contractual obligations with Oakland County - George W. Kuhn Bonds: | | | | | | | |
| 2000-A Amount of issue: \$1,126,053 Maturing through 2022 | 2.50% | \$47,549 - \$70,354 | 990,649 | - | (47,549) | 943,100 | 48,808 |
| 2000-B Amount of issue: \$413,768 Maturing through 2022 | 4.78% - 5.38% | \$14,170 - \$31,173 | 374,406 | - | (14,170) | 360,236 | 15,745 |
| 2001-C Amount of issue: \$5,176,822 Maturing through 2024 | 2.50% | \$207,829 - \$324,025 | 4,974,032 | - | (207,829) | 4,766,203 | 212,867 |
| 2001-D Amount of issue: \$199,641 Maturing through 2024 | 2.50% | \$7,872 - \$12,596 | 199,641 | - | (15,744) | 183,897 | 8,187 |
| 2001-E Amount of issue: \$621,597 Maturing through 2024 | 4.10% - 5.25% | \$22,042 - \$45,346 | 599,555 | - | (22,042) | 577,513 | 22,042 |
| 2002 Installment Purchase Agreement Amount of issue: \$1,260,000 Maturing through 2016 | 5.20% | \$5,200 - \$31,850 | 1,225,000 | - | (35,000) | 1,190,000 | 50,000 |
| Total bond obligations | | | 9,412,324 | 5,975,000 | (750,959) | 14,636,365 | 791,274 |
| Other long-term obligations - Compensated absences | | | 889,953 | 33,852 | - | 923,805 | - |
| Total governmental activities | | | <u>\$ 10,302,277</u> | <u>\$ 6,008,852</u> | <u>\$ (750,959)</u> | <u>\$ 15,560,170</u> | <u>\$ 791,274</u> |
| Business-type Activities | | | | | | | |
| General Obligation Bond: 1993 Building Authority Bonds Amount of issue: \$600,000 Maturing through 2024 | 2.80% - 2.90% | \$30,000 - \$50,000 | \$ 355,000 | \$ - | \$ (30,000) | \$ 325,000 | \$ 35,000 |
| Other long-term obligations - Compensated absences | | | - | 56,189 | - | 56,189 | - |
| Total business activities | | | <u>\$ 355,000</u> | <u>\$ 56,189</u> | <u>\$ (30,000)</u> | <u>\$ 381,189</u> | <u>\$ 35,000</u> |

City of Berkley, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

| | Governmental Activities | | | Business-type activities | | |
|-----------|-------------------------|---------------------|----------------------|--------------------------|------------------|-------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2007 | \$ 791,274 | \$ 505,645 | \$ 1,296,919 | \$ 35,000 | \$ 17,507 | \$ 52,507 |
| 2008 | 749,462 | 496,416 | 1,245,878 | 35,000 | 15,600 | 50,600 |
| 2009 | 807,648 | 467,649 | 1,275,297 | 35,000 | 13,658 | 48,658 |
| 2010 | 987,381 | 435,742 | 1,423,123 | 40,000 | 11,538 | 51,538 |
| 2011 | 916,973 | 394,376 | 1,311,349 | 40,000 | 9,248 | 49,248 |
| 2012-2016 | 5,756,603 | 1,365,281 | 7,121,884 | 140,000 | 12,459 | 152,459 |
| 2017-2021 | 3,408,078 | 490,427 | 3,898,505 | - | - | - |
| 2022-2025 | 1,218,946 | 61,208 | 1,280,154 | - | - | - |
| Total | <u>\$ 14,636,365</u> | <u>\$ 4,216,744</u> | <u>\$ 18,853,109</u> | <u>\$ 325,000</u> | <u>\$ 80,010</u> | <u>\$ 405,010</u> |

Note 8 - Restricted Assets

Restricted assets at June 30, 2006 consist entirely of cash and cash equivalents related to unspent bond proceeds.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for health and workers' compensation claims and participates in the Michigan Municipal Liability and Property Pool for claims related to property liability and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Defined Benefit Pension Plans

General Employees Pension

Plan Description - The City participates in the Municipal Employees' Retirement System of Michigan, an agent multiple-employer defined benefit pension plan that covers substantially all employees in the City's merit system and all employees of the Department of Public Works. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the Merit employees of 4 percent and no contribution from Department of Public Works employees.

Annual Pension Cost - For the year ended June 30, 2006, the City's annual pension cost of \$374,454 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, compounded annually and attributable to inflation, and (c) additional projected salary increases of up to 4.16 percent per year, depending on service and attributable to seniority/merit. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 10 years.

| | Fiscal Year Ended June 30 | | |
|-------------------------------|---------------------------|------------|------------|
| | 2006 | 2005 | 2004 |
| Annual pension cost (APC) | \$ 374,454 | \$ 416,662 | \$ 284,375 |
| Percentage of APC contributed | 100 | 100 | 100 |
| Net pension obligation | \$ - | \$ - | \$ - |

Note 10 - Defined Benefit Pension Plans (Continued)

| | Actuarial Valuation as of December 31 | | |
|--|---------------------------------------|---------------|---------------|
| | 2005 | 2004 | 2003 |
| Actuarial value of assets | \$ 14,449,996 | \$ 14,180,194 | \$ 13,969,155 |
| Actuarial accrued liability (AAL) | | | |
| (entry age) | \$ 17,324,667 | \$ 17,465,052 | \$ 16,746,763 |
| Unfunded AAL (UAAL) | \$ 2,874,671 | \$ 3,284,858 | \$ 2,777,608 |
| Funded ratio | 83 | 81 | 83 |
| Covered payroll | \$ 2,252,412 | \$ 2,261,456 | \$ 2,007,763 |
| UAAL as a percentage of covered payroll | 128 | 145 | 138 |

Public Safety Pension Trust

Plan Description - The City of Berkley's Public Safety Pension is the administrator of a single-employer defined benefit plan that covers all public safety employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2005, the date of the most recent actuarial valuation, membership consisted of 33 retirees and beneficiaries currently receiving benefits and 28 current active employees. The plan does not issue a separate financial report.

Funding Policy - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies. The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units. The funding policy provides for periodic employer contributions at actuarially determined rates and does not require employee contributions. Administrative costs of the plan are financed through investment earnings.

Note 10 - Defined Benefit Pension Plans (Continued)

Annual Pension Cost - For the year ended June 30, 2006, the City's annual pension cost of \$377,256 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2005, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 5 percent to 9 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis for police and fire employees. The remaining amortization period is 20 years.

Reserves - As of June 30, 2006, the plan's legally required reserves have been fully funded as follows:

| | |
|---------------------------------------|--------------|
| Reserved for employees' contributions | \$ 1,157,865 |
| Reserved for retired benefit payments | 8,214,472 |

Three-year Trend Information

| | Fiscal Year ended June 30 | | |
|-------------------------------|---------------------------|------------|------|
| | 2006 | 2005 | 2004 |
| Annual pension cost (APC) | \$ 377,256 | \$ 292,265 | \$ - |
| Percentage of APC contributed | 100% | 100% | 100% |
| Net pension obligation | \$ - | \$ - | \$ - |

Note 11 - Other Postemployment Benefits

The City has elected to provide postemployment health benefits to certain retirees and their beneficiaries in accordance with labor contracts. The government pays the full cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the City's group rates. Currently, 83 retirees are eligible for postemployment health benefits. The City includes pre-Medicare retirees in its insured health care plan, with no contribution required by the participants. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. For the fiscal year ended June 30, 2006, the City made payments for postemployment health benefit premiums of \$717,231. The government obtains health care coverage through private insurers.

Note 11 - Other Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 12 - Joint Ventures

Southeastern Oakland County Water Authority

The City is a member of the Southeastern Oakland County Water Authority (the “Water Authority”), which provides a water supply system serving 11 member municipalities in Oakland County. The City appoints one member of the joint venture’s governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2006, the City expensed \$578,251 of payments made to the Water Authority. The City has no explicit and measurable equity interest in the joint venture. The Southeastern Oakland County Water Authority’s operations are financially independent of the City. The City is unaware of any circumstances that would cause an additional financial benefit or burden to the participating governments in the near future. The Southeastern Oakland County Water Authority has a debt issue with a total balance outstanding as of June 30, 2006 of \$6,130,000, of which the City has guaranteed \$274,011. Complete financial statements of the Southeastern Oakland County Water Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, MI 48073.

Note 12 - Joint Ventures (Continued)

Southeastern Oakland County Resource Recovery Authority

The City is a member of the Southeastern Oakland County Resource Recovery Authority (the "Resource Recovery Authority"), which collects, processes, and disposes of the municipal solid waste, yard waste, and recyclables accumulated within the City. The Resource Recovery Authority provides services to 12 member municipalities in Oakland County. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2006, the City expensed \$241,381 of payments made to the Resource Recovery Authority. The City has no explicit and measurable equity interest in the joint venture. The Southeastern Oakland County Resource Recovery Authority's operations are financially independent of the City. The City is unaware of any circumstances that would cause an additional financial benefit or burden to the participating governments in the near future. Complete financial statements of the Southeastern Oakland Resource Recovery Authority can be obtained from the administrative offices at 3910 W. Webster Road, Royal Oak, MI 48073.

Required Supplemental Information

City of Berkley, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|----------------------------------|--------------------|-------------------|--------------|---------------------------------|
| Revenue | | | | |
| Property taxes | \$ 4,877,266 | \$ 4,877,266 | \$ 4,895,797 | \$ 18,531 |
| Licenses and permits | 304,000 | 327,640 | 336,806 | 9,166 |
| Charges for services | 374,748 | 388,748 | 405,796 | 17,048 |
| Federal grants | 8,000 | 8,000 | 10,423 | 2,423 |
| State-shared revenues and grants | 1,508,006 | 1,486,385 | 1,485,676 | (709) |
| Fines and forfeitures | 844,500 | 965,177 | 955,117 | (10,060) |
| Investment earnings | 60,000 | 128,300 | 155,531 | 27,231 |
| Franchise fees | 140,000 | 194,900 | 194,955 | 55 |
| Other | 84,740 | 323,429 | 322,409 | (1,020) |
| Transfers in | 45,000 | 45,000 | 45,000 | - |
| Total revenue | 8,246,260 | 8,744,845 | 8,807,510 | 62,665 |
| Expenditures | | | | |
| General government: | | | | |
| City Council | 7,900 | 7,900 | 5,960 | 1,940 |
| District court | 587,493 | 639,572 | 632,957 | 6,615 |
| Manager | 158,577 | 181,880 | 180,735 | 1,145 |
| Elections | 108,568 | 108,890 | 106,757 | 2,133 |
| Finance | 299,105 | 308,217 | 300,508 | 7,709 |
| Legal | 69,100 | 89,100 | 86,814 | 2,286 |
| Clerk/Treasurer | 123,198 | 132,418 | 112,809 | 19,609 |
| City hall | 182,510 | 251,378 | 248,473 | 2,905 |
| Planning | 60,044 | 67,744 | 44,994 | 22,750 |
| Inspection | 221,952 | 232,694 | 231,092 | 1,602 |
| Insurance | 445,220 | 330,020 | 337,649 | (7,629) |
| Community promotion | 49,450 | 49,450 | 23,643 | 25,807 |
| Employee benefits | 100,000 | 100,000 | 184,866 | (84,866) |
| Total general government | 2,413,117 | 2,499,263 | 2,497,257 | 2,006 |

City of Berkley, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|--|---------------------|---------------------|---------------------|---------------------------------|
| Expenditures (Continued) | | | | |
| Public safety: | | | | |
| Administration | \$ 144,350 | \$ 158,809 | \$ 161,429 | \$ (2,620) |
| Service aides | 270,264 | 270,264 | 269,792 | 472 |
| Operations | 2,647,118 | 2,795,774 | 2,859,624 | (63,850) |
| Pension administration | 344,297 | 344,297 | 351,843 | (7,546) |
| Animal control | 61,923 | 75,429 | 74,610 | 819 |
| Total public safety | 3,467,952 | 3,644,573 | 3,717,298 | (72,725) |
| Public works: | | | | |
| Operations | 191,336 | 331,534 | 304,347 | 27,187 |
| Garage | 84,474 | 84,564 | 89,156 | (4,592) |
| Street programs | 133,000 | 136,004 | 147,761 | (11,757) |
| Total public works | 408,810 | 552,102 | 541,264 | 10,838 |
| Health and welfare - | | | | |
| Community development | 55,839 | 71,931 | 63,860 | 8,071 |
| Recreation and culture: | | | | |
| Recreation | 430,837 | 445,259 | 437,652 | 7,607 |
| Library | 620,536 | 659,071 | 652,448 | 6,623 |
| WBRK | 93,089 | 95,790 | 97,964 | (2,174) |
| Communications coordinator | 76,604 | 82,224 | 78,408 | 3,816 |
| Total recreation and culture | 1,221,066 | 1,282,344 | 1,266,472 | 15,872 |
| Debt service - Principal retirement | 31,509 | 31,509 | 31,509 | - |
| Transfers to other funds | 441,756 | 468,083 | 445,194 | 22,889 |
| Total expenditures | 8,040,049 | 8,549,806 | 8,562,854 | (13,048) |
| Excess of Revenue Over Expenditures | 206,211 | 195,039 | 244,656 | 49,617 |
| Fund Balance - Beginning of year | 2,176,462 | 2,176,462 | 2,176,462 | - |
| Fund Balance - End of year | \$ 2,382,673 | \$ 2,371,501 | \$ 2,421,118 | \$ 49,617 |

City of Berkley, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended June 30, 2006

Major Street Fund

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|--|---------------------|---------------------|---------------------|------------------------------------|
| Revenue | | | | |
| Charges for services | \$ 8,414 | \$ 8,414 | \$ 10,110 | \$ 1,696 |
| State-shared revenues and grants | 706,034 | 706,034 | 665,786 | (40,248) |
| Investment earnings | 14,000 | 14,000 | 55,499 | 41,499 |
| Other | 4,000 | 4,000 | 8,272 | 4,272 |
| Total revenue | 732,448 | 732,448 | 739,667 | 7,219 |
| Expenditures | | | | |
| Finance | 13,780 | 13,780 | 8,014 | 5,766 |
| Operations | 423,670 | 423,849 | 332,553 | 91,296 |
| Transfers to other funds | 162,000 | 162,000 | 162,000 | - |
| Total expenditures | 599,449 | 599,629 | 502,567 | 97,062 |
| Excess of Revenue Over Expenditures | 132,999 | 132,819 | 237,100 | 104,281 |
| Fund Balance - Beginning of year | 1,384,307 | 1,384,307 | 1,384,307 | - |
| Fund Balance - End of year | <u>\$ 1,517,306</u> | <u>\$ 1,517,126</u> | <u>\$ 1,621,407</u> | <u>\$ 104,281</u> |

City of Berkley, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2006

Local Street Fund

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|--|---------------------|---------------------|---------------------|---------------------------------|
| Revenue | | | | |
| State-shared revenues and grants | \$ 253,939 | \$ 253,939 | \$ 239,669 | \$ (14,270) |
| Investment earnings | 10,000 | 10,000 | 40,841 | 30,841 |
| Other | 9,000 | 9,000 | 3,516 | (5,484) |
| Transfers in | 162,000 | 162,000 | 162,000 | - |
| Total revenue | 434,939 | 434,939 | 446,026 | 11,087 |
| Expenditures | | | | |
| Finance | 13,482 | 15,757 | 10,141 | 5,616 |
| Operations | 354,489 | 375,044 | 306,332 | 68,712 |
| Total expenditures | 367,971 | 390,801 | 316,473 | 74,328 |
| Excess of Revenue Over Expenditures | 66,968 | 44,138 | 129,553 | 85,415 |
| Fund Balance - Beginning of year | 959,365 | 959,365 | 959,365 | - |
| Fund Balance - End of year | <u>\$ 1,026,333</u> | <u>\$ 1,003,503</u> | <u>\$ 1,088,918</u> | <u>\$ 85,415</u> |

Solid Waste Service Fund

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|--|--------------------|-------------------|-------------------|---------------------------------|
| Revenue | | | | |
| Property taxes | \$ 912,031 | \$ 912,031 | \$ 907,527 | \$ (4,504) |
| Charges for services | 241,840 | 241,840 | 240,673 | (1,167) |
| Investment earnings | 5,000 | 5,000 | 19,209 | 14,209 |
| Other | 2,000 | 2,000 | 4,409 | 2,409 |
| Total revenue | 1,160,871 | 1,160,871 | 1,171,818 | 10,947 |
| Expenditures - Public works | 1,142,898 | 1,162,948 | 1,086,464 | 76,484 |
| Excess of Revenue Over (Under) Expenditures | 17,973 | (2,077) | 85,354 | 23,998 |
| Fund Balance - Beginning of year | 154,593 | 154,593 | 154,593 | - |
| Fund Balance - End of year | <u>\$ 172,566</u> | <u>\$ 152,516</u> | <u>\$ 239,947</u> | <u>\$ 23,998</u> |

City of Berkley, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress and Employer Contributions June 30, 2006

The schedule of funding progress is as follows:

Public Safety Pension Trust

| Actuarial Valuation Date | Actuarial Value of Assets (in millions) (a) | Actuarial Accrued Liability (AAL) (in millions) (b) | Unfunded AAL (UAAL) (in millions) (b-a) | Funded Ratio (percent) (a/b) | Covered Payroll (in millions) (c) | UAAL as a Percentage of Covered Payroll |
|--------------------------------|---|--|--|------------------------------------|--|---|
| 6/30/2000 | \$ 21.1 | \$ 14.1 | \$ (7.0) | 149.6 | \$ 1.7 | - |
| 6/30/2001 | 22.1 | 15.1 | (7.0) | 146.4 | 1.6 | - |
| 6/30/2002 | 21.4 | 16.4 | (5.0) | 130.5 | 1.7 | - |
| 6/30/2003 | 18.8 | 16.6 | (2.2) | 113.3 | 1.6 | - |
| 6/30/2004 | 18.5 | 17.3 | (1.2) | 106.9 | 1.7 | - |
| 6/30/2005 | 18.1 | 17.8 | (0.3) | 101.7 | 1.7 | - |

The schedule of employer contributions is as follows:

| Fiscal Year Ended | Annual Required Contribution | Percentage Contributed |
|-------------------|---------------------------------|---------------------------|
| 6/30/01 | \$ - | 100.0 |
| 6/30/02 | - | 100.0 |
| 6/30/03 | - | 100.0 |
| 6/30/04 | - | 100.0 |
| 6/30/05 | 292,625 | 100.0 |
| 6/30/06 | 377,256 | 100.0 |

Additional information as of June 30, 2005, the latest actuarial valuation date, is as follows:

| | |
|-----------------------------|------------------------------|
| Actuarial cost method | - Entry age |
| Amortization method | - Level percent of payroll |
| Amortization period | - 20 years |
| Asset valuation method | - 4-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | - 7.5 percent |
| Projected salary increases* | - 5.0 percent to 9.0 percent |
| *Includes inflation at | - 5.0 percent |
| Cost of living adjustments | - None |

The information presented above was determined as part of the actuarial valuations at the dates indicated.

Other Supplemental Information

City of Berkley, Michigan

| | Special Revenue Funds | | | | | | Capitol Project | |
|--|---|----------------------------|------------------------------|--------------------------|---------------------------------|----------------------|------------------------------|---|
| | Community Development Block Grant | Drug Forfeiture Fund | Recreation Revolving Fund | Seniors' Program Fund | District Court Building Fund | Loss Reserve Fund | 12 Mile Road and Coolidge | Twelve Mile Road Special Assessment |
| Assets | | | | | | | | |
| Cash and cash equivalents | \$ 9,278 | \$ 69,502 | \$ 341,267 | \$ 151,950 | \$ 67,103 | \$ 37,849 | \$ 99,516 | \$ 7,845 |
| Receivables - Other governmental units | 30,221 | - | - | - | - | - | - | - |
| Receivables - Taxes | - | - | - | - | - | - | - | - |
| Prepaid costs | - | - | 290 | - | - | - | - | - |
| Restricted assets | - | - | - | - | - | - | - | - |
| Total assets | <u>\$ 39,499</u> | <u>\$ 69,502</u> | <u>\$ 341,557</u> | <u>\$ 151,950</u> | <u>\$ 67,103</u> | <u>\$ 37,849</u> | <u>\$ 99,516</u> | <u>\$ 7,845</u> |
| Liabilities and Fund Balances | | | | | | | | |
| Liabilities | | | | | | | | |
| Accounts payable | \$ 9,263 | \$ - | \$ 1,050 | \$ 475 | \$ - | \$ - | \$ 69,218 | \$ 7,843 |
| Accrued and other liabilities | - | - | 3,274 | 941 | - | - | - | - |
| Deferred revenue | 20,958 | - | 4,500 | 200 | - | - | - | - |
| Total liabilities | 30,221 | - | 8,824 | 1,616 | - | - | 69,218 | 7,843 |
| Fund Balance - Unreserved | <u>9,278</u> | <u>69,502</u> | <u>332,733</u> | <u>150,334</u> | <u>67,103</u> | <u>37,849</u> | <u>30,298</u> | <u>2</u> |
| Total liabilities and fund balances | <u>\$ 39,499</u> | <u>\$ 69,502</u> | <u>\$ 341,557</u> | <u>\$ 151,950</u> | <u>\$ 67,103</u> | <u>\$ 37,849</u> | <u>\$ 99,516</u> | <u>\$ 7,845</u> |

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

| Funds | Debt Service Funds | | | | | | | | |
|-------------------|--------------------|---------------|------------------|-------------|----------------|---------------|--------------|--------------|---------------------|
| | 1993 General | | | | | Major and | | | |
| | Obligation | 1996 General | George Kuhn | 2002 | Building | Local Streets | Eleven Mile | Twelve Mile | Total Nonmajor |
| Twelve Mile | Refunding | Obligation | Drainage | Installment | Authority Debt | Projects Debt | Road Project | Road Project | Governmental |
| Road Project | Bonds | Library Bonds | Bonds | Loan | Service | Service | Debt Service | Debt Service | Funds |
| | | | | | | | | | |
| \$ 99,243 | \$ - | \$ - | \$ 26,745 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 910,298 |
| - | - | - | - | - | - | - | - | - | 30,221 |
| - | - | 229 | - | - | - | - | - | - | 229 |
| - | - | - | - | - | - | - | - | - | 290 |
| 676,142 | - | - | - | - | - | - | - | - | 676,142 |
| \$ 775,385 | \$ - | \$ 229 | \$ 26,745 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,617,180 |
| | | | | | | | | | |
| | | | | | | | | | |
| \$ 84,863 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 172,712 |
| - | - | - | - | - | - | - | - | - | 4,215 |
| - | - | 229 | - | - | - | - | - | - | 25,887 |
| 84,863 | - | 229 | - | - | - | - | - | - | 202,814 |
| 690,522 | - | - | 26,745 | - | - | - | - | - | 1,414,366 |
| \$ 775,385 | \$ - | \$ 229 | \$ 26,745 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,617,180 |

City of Berkley, Michigan

| | Special Revenue Funds | | | | | | Capital Project | |
|--|---|----------------------------|------------------------------|--------------------------|---------------------------------|----------------------|------------------------------|---|
| | Community Development Block Grant | Drug Forfeiture Fund | Recreation Revolving Fund | Seniors' Program Fund | District Court Building Fund | Loss Reserve Fund | 12 Mile Road and Coolidge | Twelve Mile Road Special Assessment |
| Revenue | | | | | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Charges for services | - | - | 273,641 | 68,399 | - | - | - | - |
| State-shared revenue and grants | - | - | - | 22,832 | - | - | - | - |
| Fines and forfeitures | - | 36,372 | - | - | 13,159 | - | - | - |
| Investment earnings | 301 | 2,405 | 13,724 | 5,973 | 1,429 | 695 | 3,713 | - |
| Other | - | - | - | 8,776 | - | 22,363 | - | - |
| Total revenue | 9,564 | 38,777 | 287,365 | 105,980 | 14,588 | 23,058 | 3,713 | - |
| Expenditures | | | | | | | | |
| Current: | | | | | | | | |
| General government | - | - | - | - | - | 40,116 | - | - |
| Public safety | - | 11,250 | - | - | - | - | - | - |
| Health and welfare | 33,503 | - | - | 104,295 | - | - | - | - |
| Recreation and culture | - | - | 205,691 | - | - | - | - | - |
| Debt service | - | - | - | - | - | - | - | - |
| Capital outlay | - | - | - | - | - | - | 826 | 10,718 |
| Total expenditures | 33,503 | 11,250 | 205,691 | 104,295 | - | 40,116 | 826 | 10,718 |
| Excess of Revenue Over (Under) | | | | | | | | |
| Expenditures | (23,939) | 27,527 | 81,674 | 1,685 | 14,588 | (17,058) | 2,887 | (10,718) |
| Other Financing Sources (Uses) | | | | | | | | |
| Bond proceeds | - | - | - | - | - | - | - | - |
| Transfers in | - | - | - | - | - | 54,907 | - | 10,720 |
| Transfers out | - | - | (45,000) | - | - | - | - | - |
| Total other financing sources (uses) | - | - | (45,000) | - | - | 54,907 | - | 10,720 |
| Net Change in Fund Balances | (23,939) | 27,527 | 36,674 | 1,685 | 14,588 | 37,849 | 2,887 | 2 |
| Fund Balances - Beginning of year | 33,217 | 41,975 | 296,059 | 148,649 | 52,515 | - | 27,411 | - |
| Fund Balances - End of year | <u>\$ 9,278</u> | <u>\$ 69,502</u> | <u>\$ 332,733</u> | <u>\$ 150,334</u> | <u>\$ 67,103</u> | <u>\$ 37,849</u> | <u>\$ 30,298</u> | <u>\$ 2</u> |

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2006

| Funds | Debt Service Funds | | | | | | | | |
|-------------------|--|---|----------------------------------|---------------------------------|---------------------------------------|---|---|---|---|
| | 1993 General Obligation Refunding Bonds | 1996 General Obligation Library Bonds | George Kuhn Drainage Bonds | 2002 Installment Purchase | Building Authority Debt Service | Major and Local Street Projects Debt Service | Eleven Mile Road Project Debt Service | Twelve Mile Road Project Debt Service | Total Nonmajor Governmental Funds |
| \$ - | \$ - | \$ 396,074 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 396,074 |
| - | - | - | - | - | - | - | - | - | 342,040 |
| - | - | - | - | - | - | - | - | - | 22,832 |
| - | - | - | - | - | - | - | - | - | 49,531 |
| 10,070 | - | - | 1,655 | - | - | - | - | - | 39,965 |
| 4,338 | - | 488 | - | 98,700 | - | - | - | - | 134,665 |
| 14,408 | - | 396,562 | 1,655 | 98,700 | - | - | - | - | 994,370 |
| - | - | - | - | - | - | - | - | - | 40,116 |
| - | - | - | - | - | - | - | - | - | 11,250 |
| - | - | - | - | - | - | - | - | - | 137,798 |
| - | - | - | - | - | - | - | - | - | 205,691 |
| - | - | 403,050 | 497,430 | 98,700 | - | 88 | 84 | 28 | 999,380 |
| 173,858 | - | - | - | - | - | - | - | - | 185,402 |
| 173,858 | - | 403,050 | 497,430 | 98,700 | - | 88 | 84 | 28 | 1,579,637 |
| (159,450) | - | (6,488) | (495,775) | - | - | (88) | (84) | (28) | (585,267) |
| 850,000 | - | - | - | - | - | - | - | - | 850,000 |
| - | - | 6,488 | 498,810 | - | - | 88 | 84 | 28 | 571,125 |
| (28) | - | - | - | - | - | - | - | - | (45,028) |
| 849,972 | - | 6,488 | 498,810 | - | - | 88 | 84 | 28 | 1,376,097 |
| 690,522 | - | - | 3,035 | - | - | - | - | - | 790,830 |
| - | - | - | 23,710 | - | - | - | - | - | 623,536 |
| \$ 690,522 | \$ - | \$ - | \$ 26,745 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,414,366 |

October 31, 2006

To the Honorable Mayor and
Members of the City Council
City of Berkley
3338 Coolidge
Berkley, Michigan 48072

Dear Mayor and Council Members:

In planning and performing our audit of the financial statements of the City of Berkley for the year ended June 30, 2006, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

45-A District Court - Reconciliation of Bank Accounts and Segregation of Duties

Sound internal controls dictate that bank account reconciliations be prepared on a timely basis for all cash accounts. As you are aware, bank account reconciliations are one of the most important aspects of the internal control environment for the safeguarding of assets and timely identification and correction of errors in the financial records. During the course of our audit, we noted that the reconciliation of the District Court bond account is prepared by the employees of the court, but the reconciliation is not reviewed nor are adjustments recorded in the general ledger by the Finance Department.

Segregation of duties is also an essential component of internal controls. When job responsibilities are properly segregated, the risk of intentional or unintentional error or omission in the accounting records is reduced. To the extent one individual is not involved to a significant degree with the majority of duties in any given area, a system of "checks and balances" is created. Currently, one individual is responsible for making deposits into the District Court bond account, reconciles the account without a supervisory review, and is a check signer on the account. We also noted that checks written out of this account are not consistently communicated to the finance department to be recorded in the City's general ledger, as discussed above. At the end of the year, there was a difference between the balance of this bank account as reconciled by Court personnel and the balance reflected in the City's accounting records. We recommend that functions related to this account be segregated and that the transactions be updated to the general ledger in a timely manner.

In addition to the audit report, we offer the following comments and recommendations for your review and consideration regarding matters that we do not consider to be reportable conditions:

Overview of the City's Financial Condition

During the year ended June 30, 2006, General Fund revenues exceeded expenditures by approximately \$245,000. Fund balance at June 30, 2006 was increased to approximately \$2,421,000, of which \$1,787,000 is unreserved and undesignated.

While the increase in fund balance is encouraging, the City continues to be faced with budgetary challenges. During the 2005-2006 fiscal year, the City experienced only modest growth in property tax revenue and a reduction in State revenue sharing; however, most departments were near or below budgeted expenditures. Many challenges, including the potential for further reductions in State revenue-sharing payments, are a direct result of the difficult economic period that has been experienced in the state of Michigan. Other challenges, such as the limited ability to experience growth in property tax revenue, future capital equipment and infrastructure needs, and currently unfunded post-employment benefit obligations are a characteristic of the City and its physical framework. We encourage the City Council and administration to continue to closely monitor the budget in order to ensure adequate fund balance reserves are maintained.

State Shared Revenue

As you are aware, the continuing budgetary challenges faced by the State impact the City through its revenue sharing payments, which are the second largest revenue source for both the General Fund by itself and the governmental activities as a whole. While the drastic declines in this funding source experienced in recent years appear to have slowed, it is clear that the total amount of money distributed is unlikely to increase without significant changes to the state's revenue structure. At this time, the 2007 projected budget is level with 2006.

It is important to recognize that the authority for the statutory portion of revenue sharing terminates at September 30, 2007. This portion represents approximately \$400,000 of the \$1,466,000 state shared revenue received from the State during the year ended June 30, 2006. We have not heard any significant discussion in Lansing regarding the plans for renewal at that time, but it would be appropriate to begin discussions with your state representative regarding the importance of the revenue sharing program.

Federal Funding of Construction Project

It is our understanding that the City is a participant in the Eleven Mile construction project that is administered by the City of Oak Park and will be partially funded through federal funds. The recognition of these federal funds could significantly impact the City's requirement for a single audit under OMB Circular No. A-133 for the years beginning after June 30, 2006 through completion of the project. We encourage the City's management to communicate with the participating communities and applicable state and federal agencies to determine the proper reporting of these federal funds in the City's financial records and, potentially, in a Single Audit Report on the Schedule of Expenditures of Federal Awards.

Internal Control Matters

Supervisory Review - The significant amount of turnover in the City's finance department in recent years has made it difficult to maintain consistent procedures related to segregation of duties and supervisory oversight. This was especially difficult in the current fiscal year because the Finance Director position was vacant for several months.

Though this position has been filled and supervisory reviews are being performed, it is our recommendation that as the Finance Director continues to review applicable documents prepared by the finance department staff, special emphasis be placed on reducing the number of audit adjustments in future years.

Reconciliation of Key Accounts - During the course of our audit, we noted that the accounts receivable balance for the Water and Sewer Fund was not reconciled to the subsidiary ledger during the year or as of June 30, 2006. We suggest that the finance department perform a reconciliation of this accounts receivable balance monthly in order to identify any errors in a timely manner. It is also our understanding that adjustments to customer accounts can be made by an individual in the public works department without prior supervisory approval or subsequent review. We recommend that the City adjust the procedures related to customer accounts to ensure that monthly activity is reviewed for propriety and month-end balances are reconciled to the general ledger.

Reporting to Council

Investment Activity - As required for all local units by Public Act 196 of 1997, the City has adopted an investment policy. This Act also requires that the "Investment Officer annually provide a written report to the governing body concerning the investment of funds." It is our understanding that such a report has not been provided to the Council on an annual basis. We recommend the City review this procedure to ensure compliance with Act 196.

Budgetary Information - It is our understanding that the Council is not presented budget to actual financial information during the year. We suggest that this information be presented to the Council on a monthly basis. Review of budget to actual information by the Council would provide another level of supervisory review, and assist the Council in identifying potential budget constraints ahead of time. It is our understanding the Council received quarterly budget to actual comparisons starting with the first quarter of fiscal year 2007.

Funding of Postemployment Benefit Obligations

As you are aware, the City provides postemployment benefits to retirees that are funded currently from the General Fund. For the year ended June 30, 2006, the cost of these benefits amounted to approximately \$717,000.

The Governmental Accounting Standards Board has released Statement Number 45, Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45). The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care benefits. The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. As a result, the City will need to continue to budget only the expected cash payments, whether directly for health insurance premiums or for contributions to a pre-funding plan.

While GASB 45 does not require the City to pre-fund retiree health care benefits, it requires an actuarial valuation to be performed to measure the obligation, similar to what is done for the Public Safety Pension trust. The statement is not effective until the City's 2008-2009 fiscal year, however, it is important to consider its impact early. We understand that the City has begun to evaluate the pre-funding of postemployment benefit obligations on an actuarial basis. Actuarial funding generally provides the best mechanism for funding obligations over long time periods and multiple budget cycles.

To provide local governments with additional funding options, legislation has been introduced which would allow bonding as a funding tool. We will keep you updated as developments occur with this legislation.

Municipal Finance Act Revisions

The Municipal Finance Act was amended several years ago, requiring communities to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process was eliminated and replaced with this qualification process, which serves as a pre-approval for future debt issues. As a reminder, the current filing is due within six months of the City's year end and is good for one year thereafter. The City should also consider the need to file a qualifying statement for its component unit.

We would like to thank the Council for the opportunity to serve as auditors for the City. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



David W. Herrington



Lisa C. Manetta